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Futurum Starts New Fund in Czech Republic

Bloomberg Business News by Laura Zelenko in Prague

Board members of a Czech investment company that offer high yields, and that regulators say may be illegal, have launched a new fund to buy and sell shares on the Prague Stock Exchange.

The new fund, Futurum Aurum, is closely connected to the original one, run by First Finance and Construction Co (FSK), of Prague, which promises investors a guaranteed 25 per cent annual return by financing commodities trades between former Soviet republics and western Europe.

Founded by a large Russian conglomerate, and now owned primarily by Swiss companies Vital Trading Co and Lavico, and the Union of Industrial Entrepreneurs of Kazakhstan, FSK so far has raised $2 million to $3 million from investors, said Vitalios Krioukidis, a Zurich-based consultant to Futurum and FSK.

At a highly charged press conference February 1st in Prague, conducted in Russian, German and Czech, FSK officials defended their scheme against Czech banking laws.

The new open-end fund also promises a minimum annual return of 25 per cent. This month, it will begin buying shares of troubled Czech companies that trade, process or use raw materials, FSK officials say.

"It's bad today, we buy it, we make it beautiful," Mr Krioukidis said of the fund's plans to rescue failing Czech companies.

Futurum, he said, will put money into FSK, which will buy stakes in, say, a profitable Russian copper producer, the earnings of which will be put back into a troubled Czech company that Futurum has shares in. Once the Czech company is turned round, Futurum will sell its shares.

Ultimately, Futurum is expected to buy shares in foreign companies, FSK officials said.

Czech National Bank spokesman Martin Svehla said FSK currently had no permission to purchase shares abroad with foreign currency. The central bank is investigating whether FSK is violating Czech banking laws with its fixed-rate interest promise, and could impose a fine if a violation is found, Mr Svehla said.

Futurum, he added, fell under different laws for investment funds, though promising a minimum 25 per cent annual return "is from an economic point of view, nonsense," he said.

Nevertheless, the central bank couldn't prevent people from investing in such high-yield schemes, Mr Svehla said.

"We cannot do more than alert and issue some warning to the general public that this doesn't correspond to the laws,' he said. "If somebody signs some agreement with anybody, and is ready to change his money for some paper or some good word, we cannot do anything against this."

FSK officials, who have promoted their business in large newspaper advertisements and billboards, say both FSK and Futurum meet legal requirements, and claim that the central bank's actions against various investment arrangements in the Czech Republic are irresponsible.

"It's an effort to suppress this emerging competition," said FSK board member Libor Petricek, one of Futurum's founders.

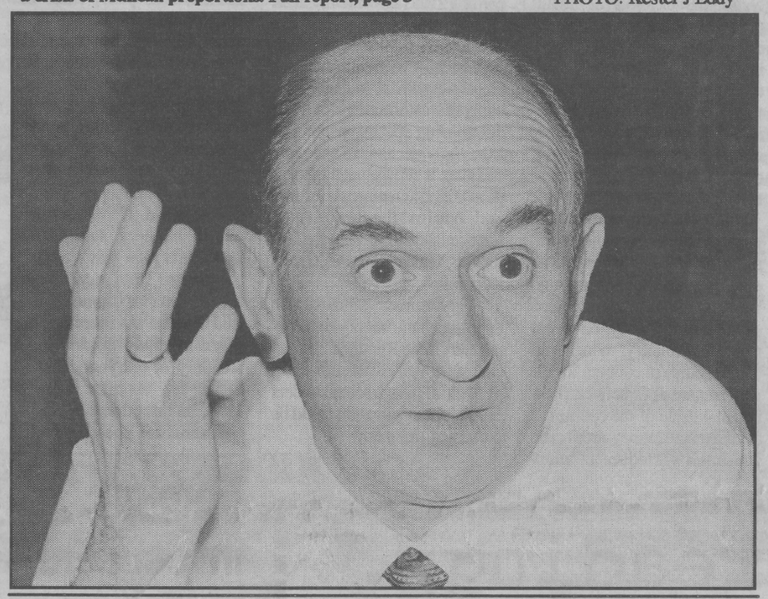
Mr Krioukidis said FSK so far had spent "much, much more" on consultancy fees for himself, and other expenses, than it had collected from investors. But he expected strong interest in future, particularly from investors in the Middle East.

"Now I'm flying to Dubai and Amman," Mr Krioukidis said.

"Some sheikhs arew wait-

FINANCE MINISTER QUITS:

Hungary's finance minister, Laszlo Bekesi, resigned at the weekend, unhappy with the slow progress of reform in Hungary and the apparent inability of the Socialist Party leadership to come to grips with the country's economic problems. Mr Bekesi also warned of the danger of a crisis of Mexican proportions. Full report, page 3 PHOTO: Kester J Eddy



Czech stock market hits all-time low

by Normandy Madden in Prague

Many Czechs are touting January 31st, 1995 as the one of the darkest days in the history of the Prague Stock Exchange, but foreign traders say that even serious dips are just part of the game in central Europe.

The fuss arose when the PX 50 Index fell below the psychological mark of 500 points to an all-time low of 495.1 on trading of 285 million crowns on the last day of January. The HN-Wood 30 Index slid 26 points to 1409, and the ZB Index fell to 1591, down 29 points. And the market is expected to fall even further before it bottoms out.

The Czech newspaper *Mlada fronta Dnes* reported on February 1st, 1995 that there was widespread speculation that disenchanted foreign investors have lost faith in central European's emerging markets, as many blue chips stocks are now selling for all-time lows and are worth considerably less than they were only a few months ago.

For example, the Czech Electric Company, CEZ, sold for 1,370 crowns in November, but was down to 1,150 crowns on January 31st.

The newspaper further reported that many Czechs are taking advantage of the bargain prices and are buying heavily, but in small quantities.

But Jay King, at Wood & Company Securities, disagrees. He told *Central European Business Weekly* that "the market is not falling from foreign investors selling, because there is little investment here for flight. It's mostly domestic sales which we are seeing, from a need for liquidity, as well as a lack of foreign investment flowing into this market."

"There is no flight," he explained, "but there is no arrival either. I think what will make the market turn are fundamentals. We expect in the first quarter of 1995 for corporate numbers to be much more improved, because we're starting to see overall European growth, especially in Germany, and the Czechs will benefit greatly from this, because this is an export-led economy. But until we get some hard numbers, or at least some strong indication of this development, this will be a very quiet market. We have begun seeing some buying in high cap stocks, which comprise most of the market, but we have seen very little movement in high quality companies."

On the prophesies of doom in the Czech press, Mr King is matter-of-fact about the market: "People have a tendency to be over dramatic, to overplay certain situations. An emerging market is volatile and swings are already discounted by the foreign investor as part of playing the game.

"You're dealing with very experienced investors who are long-time players. It's a buying opportunity here and short-term falls are not relevant. There is an illusion of this as a black day, like Black Monday in the United States in 1987, but that's all a bunch of crap. It's just short-term volatility and I'm not worried. There is a strong macro-picture here and it's a cost advantageous market."

He added: "Foreign investors are frustrated by the lack of transparency is this market... because they feel as if they are unable to get a good read on the market. There are no regulatory controls, which doesn't give an impression of having standards on market."

Ministers named at last in Poland

by David Osterhout in Warsaw

One of the sources of conflict between Poland's president and its prime minister has been resolved.

Prime Minister Waldemar Pawlak finally named candidates to fill two vacant cabinet posts and President Lech Walesa has accepted them, a spokesman for the president told the *Central European Business Weekly*.

The dispute over vacancies at the top in the foreign ministry and the defense ministry has threatened to destabilise the government.

Earlier in the week, Mr Walesa's chief spokesman told reporters that the president would take "appropriate legal action" if Mr Pawlak failed to name candidates for the cabinet posts by February 3rd.

Presidential action would be needed, the spokesman said, "to prevent a paralysis of the state." Under questioning by the press, he said that dissolution of parliament was among Mr Walesa's options.

Mr Pawlak was expected to nominate candidates to head the two so-called "presidential" ministries more than a week ago.

Earlier, a candidate for the post of defense minister asked that his name be withdrawn after Mr Walesa objected to this selection.

Mr Pawlak suggested two candidates in a telephone call to the president Tuesday.

A spokesman for the president said the names will not be revealed until they are submitted formally to Mr Walesa later this week. However, it is believed that Janusz Ziolkowski and Jerzy Milewski are named as candidates.

Mr Ziolkowski is a sociologist in charge of foreign affairs for the presidential office and Mr Milewski is the present deputy defense minister.

The vacancies occurred when Andrezj Olechowski resigned as foreign minister January 13th and Piotr Kolodziejezyk was dismissed from the post of defense minister in late 1994.

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CENTRAL EUROPEAN
BUSINESS WEEKLY

A telecom storm

This newspaper carried two articles in each of the past two weeks on the subject of the awarding of telecom contracts in the Czech Republic. The essence of both these news stories was that contracts had been awarded without a tender process as apparently required by Czech law as of January 1st of this year.

Our coverage of this issue has caused a considerable stir. This week we publish two letters, each with a distinctly different viewpoint.

In this leading article Central European Business Weekly takes the opportunity to answer some of the points raised by the representative of the company to which the contract was awarded in controversial circumstances.

Regarding the claim that NIT-Praha is not a Norwegian company, we would like to draw attention to the fact that NIT stands for Norwegian Information Technology. The company's letterhead indicates offices not only in Prague and Bratislava, but also in Oslo and a head office in Hamar, Norway. In addition, the managing director of NIT-Praha in Prague, is a Norwegian national.

Last month, when a reporter from *Central European Business Weekly* interviewed the managing director and asked the value of the contract, he responded that it was an "internal" business matter. He also refused to say when the contract was signed. *CEBW* contacted another VSAT company to get an estimate of what such a contract would cost, and we quoted a figure of between $10 and $12 million. Had the NIT Praha official told our reporter at the time what the value of the contract was, that would have been the figure used in the news story.

As for the hub station on top of the Ministry of Finance building, that was information which was provided to our reporter. NIT has now clarified the exact roof-top on which it will be placed.

Regarding the issue of the transponders, CEBW asked specifically about this issue and Mr Vittor's reply was, "Why do you ask me?" and questions were referred to the Ministry of Finance. Competitive VSAT companies, which we contacted, believe that the transponder has been provided free due to the low contract price.

NIT Praha is correct in saying that no ABB company is involved in the contract. The subcontractor, TeleNor Satellite Services, does on occasion buy equipment from a former ABB company, Nera. However, TeleNor Satellite services sales manager Are Mathisen, said his company will not be buying equipment from that source for this Ministry of Finance project.

The central point of the news story was that a contract had been awarded to NIT Praha without a tender process. We stand by our story in all its essential points.

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LETTERS TO THE EDITOR

VSAT SCANDAL, GROSS VIOLATION OF CZECH LAW

Dear Editor
We have followed with great interest your coverage of the Finance Ministry VSAT satellite network scandal and thank you for the courage to cover it.

You are doing a great public service. We are outraged that the government's own critical communication network project has been subverted, given away and contracted out to the Norwegians without a legal public tender. No responsible government can afford this behaviour in public procurement.

The Czech Parliament passed a law to prevent this kind of abuse and the finance ministry issued a directive last year warning other ministries that they should comply with the coming law. We believe that this contract award to the Norwegians is a gross violation of current Czech law. It is shocking that No Written Specifications were ever given to the publicly known group of licensed Czech VSAT companies, No Request for Proposals was ever issued for this network, which is the biggest and most advanced private communications network in the Czech Republic and probably the biggest in central and eastern Europe. We feel it is blatantly anti-competitive, resoundingly illegal and utterly unfair to give a foreign company group which has never operated in the Czech satellite industry the prime contract and exclusive contract to build, own and operate the most important network in the country, when local companies haven't even been given an opportunity to bid for parts of the project. This is *stara structura* market manipulation at its worst.

This network's concept was designed to help the Czech government become more efficient and modernise its financial management and control of customs and other border information, such helping to reduce the numbers of stolen vehicles. Obviously, it is designed to help the Czech Republic build a better and more competitive free market economy so that it may enter the European Union and Global Village more rapidly. But the Ministry of Finance project is so badly designed that neither the Ministry of the Interior nor the Army will use it. Is all of this taxpayer money well spent if these two critical ministries cannot find a good use for the current network design?

BEEDNET, like other licensed VSAT companies in the Czech Republic, has known about parts of a government network project for the entire five years since the Velvet Revolution. We and many other operators have tried to make helpful suggestions during these years to help develop worldclass standards for different portions of the 'Network'. In doing so, we have tried to earn a small portion of this enormous and permanent national project, by virtue of the quality of our suggestions and the excellence of our more affordable and flexible engineering and proposed regulatory solutions. Sadly, the disreputable personal behaviour of certain ministry staff and Norwegian company representatives has apparently demonstrated that huge governmental projects with taxpayer money can be still given away in central Europe without any public accountability.

One must wonder also what the Norwegians expect in return for five years free use of a satellite transponder. Worth remembering is that the same transponder, if used by a TV station, would cost $6 to 8 million per year, minimum, on the open market...and probably more. What does Norwegian Telecom and its related companies, including NIT-Praha, expect in return for a $40+ million gift to the finance ministry? Apparently, 'enough' is to build, own, operate, and maintain a VSAT network with the Czech government's most sensitive financial and customs information, forever. It has been said that the free transponder was contingent on there being no competition for the whole project. This is an unethical *quid-pro-quo*. One also wonders what will be the diplomatic and national security implications of such a deal if ever the Czech government really disagrees with the Norwegian government on a major issue? How safe is the Czech government's most sensitive business, tax and trade information if it is streaming through a system and a satellite transponder belonging to a foreign country...able to be monitored by the Norwegian national telephone company, which is owned by the Norwegian government? Would it not be safer to have a network operated exclusively by known, local Czech VSAT companies which are known after years of operations, and which can be properly monitored by the Czech government? Isn't there, 1) a national security question, as well as 2) a legal question, and 3) an equally important commercial question?

The Network is a permanent network worth many millions of dollars in planned equipment alone, for some 500+potential sites, and will never by disassembled. Czech companies should be allowed to help build this first part of Czech National Information Highway...and integrate it with the Global Information Highway. It is unethical to allow this scandalous travesty of internationally accepted rules for public procurement to remain uncorrected. BEEDNET would like to see a parliamentary enquiry into the award of this contract as we feel it is a direct violation of the intent of a duly enacted law of the Czech parliament.

Respectfully Submitted,
Charles A. Ross
President, Managing Director
BEEDNET PRAHA Spol. S.R.O.

WITH REGARDS TO ISSUE 129...

Dear Editor
Your article in *CEBW* printed January 20th regarding NIT-Praha and our VSAT contract with Ministry of Finance contains several untruthful statements. NIT-Praha feels obliged to accommodate these statements with the following comments:
NIT-Praha is not a Norwegian company but a Czech company registered in the Czech commercial register.
The total value of the contract is not between $10 to $12 million but approximately $2.7 million over the whole contractual period.
NIT-Praha had never any intention to mount a HUB at Mala Stana. But we will place our mini-HUB on the top of a building Ministry of Finance controls at Pankrac, Prague 4.
NIT-Praha has not offered any transponders free of charge to Ministry of Finance neither through the ABB nor through any other supplier.
No ABB company is involved in this contract. NIT-Praha use only Telenor Satellite Services as subcontractors.
NIT-Praha has not applied any dumping tactics. As a player on the international arena we are used to competing on price and performance. What we have done in the Czech Republic is to enter the VSAT market with the same competitive prices as we provide in the western countries. If our competitors apply a "normally standard price" as referred in your article and this price is three times higher than the prices provided by NIT-Praha, our competitors are to be blamed not NIT-Praha.
Neither NIT-Praha nor Telenor Satellite Services gain any financial support or loans from Norwegian governmental institutions. Since former ABB company NERA is not involved in this contract their comment stated by vice-president Arvid Hovland is based on his guessing within a field he is not at all informed.

There are several reasons why NIT-Praha is able to give the most competitive offer. Norwegians operations at sea, such as oil exploration, a large commercial fleet and special events like the Winter Olympics, has created a need for the best communication alternatives available. Accordingly Telenor Satellite Services as one of the leading satellite service providers in the world has made large investments in building a technical platform and know-how in this area. This gives Telenor Satellite Services an unique position towards the vendors of satellite equipment and the international satellite consortia, securing the control of satellite transponders for further expansions.

As a promising country striving for market economy and EU membership Czech companies must accept a new area of business relations with free competition across the borders. The Czech taxpayers can be pleased with the fact that they do not have to pay $12 million per year to any of our competitors.

Best Regards,
Stefano Vittor
Managing Director NIT-Praha

The editor responds - please see leading article on this page

Central European Business Weekly welcomes letters to the editor. They should be addressed to:

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